

INTERIM REPORT 2009

FOR THE SIX MONTHS ENDED 31 MARCH 2009



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CHAIR AND CEO REPORT

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RESULTS OVERVIEW

For the first six months of this financial year AsureQuality has performed ahead of our budget expectations, posting a profit of \$4,003,000, a significant improvement over the profit for the same period last year.

Total revenue at \$70,760,000 for the first six months was ahead of budget. This represents growth of 5.9% over the previous six months based on continuing activities.

Tempering this result, there are clear signs that business is getting tougher due to the external environment. We face some challenging months ahead and will be maintaining a close focus on cost management and seeking to maximise business opportunities.

The merger phase has been completed within the 2008/09 year. AsureQuality has now achieved the cost saving benefits identified in the Cameron Partners report at the time of the merger. Since the merger, AsureQuality is realising the scope and scale benefits outlined in the Cameron Partners report in the normal ongoing course of business as a result of:

- › Cross-selling related services – particularly laboratory and auditing services to existing meat inspection customers.
- › Sharing best practice processes and procedures across the business.
- › Leveraging a broader service offering across the supply chain to create new growth opportunities.

SHAREHOLDER DIVIDEND

In line with the Shareholder's expectation of us as an SOE to generate a commercial return, a dividend of \$3 million was paid to the Shareholder in December 2008.

PRIMARY PRODUCTION SELECT COMMITTEE (PPSC) REVIEW

The PPSC 2007/08 Financial Review was very positive for AsureQuality. The Committee was pleased with the overall performance of the new company during the period under review.

BOARD CHANGES

Two of our Directors, Rakihia Tau and Grant Gillon, retired from the Board after many years of dedicated service to both AsureQuality and the two previous organisations, AgriQuality Limited and ASURE (New Zealand) Limited.

Two new Directors have been appointed from 1 May 2009. John Ashby, who is highly experienced in international business and has previously been the GM of Gilmours and CEO of the Bell Tea Company; and Dean Nikora, who has extensive experience in the farming and dairy sectors, with governance experience as a member of the Fonterra Shareholders Council, a Director at Ballance Agri-Nutrients and as a trustee for Maori-owned assets.

KEY FOCUSES FOR 2009

INCREASING PERFORMANCE AND PRODUCTIVITY

AsureQuality will continue to focus on internal operational efficiency and value-enhancing growth opportunities to improve its financial performance.

PURSUING VALUE ENHANCING OPPORTUNITIES

During the coming financial year, AsureQuality will focus on a number of opportunities across its business to deliver value-enhancing growth.

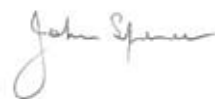
In particular, the following priority areas offer significant potential for AsureQuality to deliver additional shareholder value:

- › Growing the Laboratory business
- › Growing the Animal Health Diagnostics business
- › Public sector cooperation and consolidation for efficiency and effectiveness
- › Strengthening Biosecurity

CURRENT ECONOMIC DOWNTURN

AsureQuality has already undertaken a number of initiatives to ensure that it is well positioned to meet the challenges of the current external economic environment and the ongoing challenges that are likely to persist for some time as a result. Minimising any adverse effects of the downturn will be an important consideration for AsureQuality over the coming year.

Despite the expected difficult trading conditions, the expectation is that the Company will meet its budget in the current financial year.



John Spencer
Chair



Tony Egan
CEO

May 2009

BUSINESS OVERVIEW

HIGHLIGHTS

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OPERATIONS

MEAT INSPECTION SERVICES

AsureQuality Meat Inspectors continue to exceed the New Zealand Food Safety Authority (NZFSA) target for compliance accuracy.

During the period, AsureQuality engaged Ernst and Young to conduct an independent review of the meat inspection overhead cost allocation to the meat industry. The result confirmed that indirect costs have been reduced to below 2000 levels, and highlighted \$300K of direct savings to the industry from the merger. An additional saving of \$149K has been achieved through improved utilisation of meat inspectors in new roles within AsureQuality.

TRAINING SERVICES

The past six months have seen a realignment of AsureQuality's training activities. Training is now coordinated under a separate training administration, logistics and support group within the Operations division. Its key role is to deliver coordinated and consistent training across all business units to meet NZQA and ITO standards.

A successful audit by the New Zealand Qualifications Authority (NZQA) in February ensured our continued presence as a registered Private Training Establishment.

FOOD AND DAIRY

This year AsureQuality's British Retail Consortium (BRC) Technical Manager travelled to the UK to meet with key BRC technical people and to complete a 'Train the Trainer' course. As a result, we are now the sole trainer of BRC

auditors in New Zealand. Despite strong competition we have continued to grow market share for audits under the Global Food Safety Standard and are now a recognised certification auditing body for its Packaging certification.

Work for the Saudi Arabian dairy company, Almarai, has continued to increase with AsureQuality recently undertaking extensive on-site audits of its processing systems.

Over the past six months significant work has gone into addressing the new NZFSA Dairy Industry Verification requirements. AsureQuality has been working closely with both the NZFSA and the dairy industry to ensure the implementation is managed carefully and that disruption and additional costs to the industry are minimised.

BIOSECURITY

Following a tender process last year, AsureQuality was selected by MAF Biosecurity New Zealand (MAFBNZ) as its partner to develop and maintain a fully integrated biosecurity response capability network across New Zealand - effective 1 July 2009.

A number of surveillance programmes continue to be carried out under our current contract with MAFBNZ. These include 1259 gypsy moth traps and 7588 fruit fly traps, in place at 3518 sites between Northland and Bluff.

In the first six months of the year our Veterinary Services business completed three contracts for MAFBNZ, and had a busier than expected export season. Exports of horses to Australia and Asia continue, and cattle have been prepared for export to China.

FIELD SERVICES

In February our Field Services team commenced work with the Avocado Industry Council (AIC) to undertake a national survey for Avocado Sun Blotch Viroid. The survey is funded by the AIC, with the specifications developed by MAFBNZ. An integrated approach has resulted in a survey that meets the requirements of all parties involved - with mapping services being provided by the Geospatial Information Services (GIS) team, and development of integrated GPS and barcode data logger capability by the IT development team.

ON-FARM SERVICES

The Animal Health Board (AHB) recently retendered their national Tb testing contracts. AsureQuality was successful in gaining 83% of the Tb testing volume, winning 19 of the 23 testing regions tendered.

To consolidate livestock tagging systems within New Zealand, in mid-February we handed over the order of tags to the AHB and Livestock Improvement Corporation. This marked the end of the Agritags system which since starting in 1999 had received over 300,000 orders involving 46 million tags for cattle and deer.

LABORATORIES AND DIAGNOSTICS

LABORATORY SERVICES

The recent Melamine contamination, originating in China, has seen large volumes of testing through the Wellington Laboratory with both project and dairy industry work.

New testing methodology developed by our Apiary and Wellington Laboratory businesses has been chosen by the National Beekeepers Association (NBA) as the National Testing Programme. This follows new regulations by the NZFSA to prevent tutin contaminated honey reaching customers.

An upgrade project for Lynfield Laboratory in Auckland is scheduled to start mid-year. This will increase the capacity and cater for anticipated growth over the next five years.

AsureQuality continues to monitor the Ribena brand for GlaxoSmithKline in New Zealand. Since the relaunch began last year we have tested over 100 Ribena samples for vitamin C content, both in production and on the supermarket shelf.

ANIMAL HEALTH DIAGNOSTICS

In the first full year of our facility, the Melbourne Diagnostics team has produced plates that equate to approximately 1.5 million tests. It has also helped our key customer Zurich-based Prionics redevelop a number of products and established regular business with a broader range of customers.

Both AsureQuality and Prionics recognise the desirability of working together to expand the present business model to ensure a sustainable future, and to help create global scale.

SUPPORT SERVICES

Investment is currently being made to improve our payroll, finance, reporting and budgeting systems to enhance access to information.

A conservative approach to costs and recruitment has been taken to assist the company during the current economic downturn, and will be maintained during the next half of the financial year.

OTHER ACTIVITIES

DAIRY TECHNICAL SERVICES (DTS)

Following the purchase of shares from three of its minority shareholders, AsureQuality's shareholding in DTS Food Laboratories in Australia increased to 25% during the first half of this year. DTS is performing well; with a major refurbishment project nearing completion.

Developments in this area have consolidated DTS' position as one of the largest food testing businesses in Australia and offer significant growth potential in the future. Both Auckland and Wellington laboratories have benefited from our association with DTS, through the provision of routine testing services during its laboratory upgrade, and delivering specialist high-end testing to a range of DTS customers.

ACC TERTIARY STATUS

AsureQuality received formal notification of our Tertiary Level status in the ACC Partnership programme early in the financial year.

JAS-ANZ RE-ACCREDITATION

The four-yearly JAS-ANZ re-accreditation audit, conducted in March, was successful with full re-accreditation granted for the next four years.

CORPORATE SOCIAL RESPONSIBILITY

AsureQuality donated a further \$10K to the Maungatautari Trust which runs a fully enclosed ecological reserve in the Waikato covering 3400 hectares.

A newly established Employee Volunteer Programme allows AsureQuality employees to donate one day of their time each year to support a community organisation or charity of their choice.

Landcare Research recently completed an interim calculation of AsureQuality's greenhouse gas emissions for the period from 1 October 2007 to 30 September 2008. It estimated our total CO² emissions for the period to be 3481 tonnes. A plan is now being developed to reduce AsureQuality's carbon footprint over time.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT FOR THE SIX MONTHS ENDED 31 MARCH 2009

	Note	6 months Mar 2009 \$000	6 months Mar 2008 \$000
Continuing operations			
Revenue	5	70,760	66,823
Cost of sales	6	(47,159)	(45,262)
Gross profit		23,602	21,561
Administration expenses		(7,996)	(7,691)
Sales and marketing		(245)	(149)
Other expenses		(9,609)	(8,809)
Operating profit		5,752	4,912
Share of associate profits		194	-
Foreign exchange gains		30	50
Finance income		4	295
Finance costs		(316)	(835)
Profit before income tax		5,663	4,422
Income tax expense		(1,660)	(1,554)
Profit for the period from continuing operations		4,003	2,867
Discontinued operations			
Loss for the period from discontinued operations	7	-	(703)
Profit for the period		4,003	2,165

The accompanying notes form part of these condensed consolidated interim financial statements

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE SIX MONTHS ENDED 31 MARCH 2009**

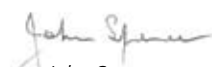
	<i>Note</i>	6 months Mar 2009 \$000	6 months Mar 2008 \$000
Items net of tax			
Movement in revaluation reserve		-	-
Movement in foreign currency translation reserve		117	(51)
Net income recognised directly in equity		117	(51)
Profit for the period		4,003	2,165
Total recognised income for the period		4,120	2,113

The accompanying notes form part of these condensed consolidated interim financial statements

CONDENSED CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2009

	Note	Mar 2009 \$000	Sept 2008 \$000	Mar 2008 \$000
Assets				
Current assets				
Cash and cash equivalents		1,424	6,009	8,636
Trade and other receivables		17,525	13,756	14,810
Inventories		4,194	3,737	4,162
Work in progress		348	1,400	1,157
Current tax assets		-	-	294
Assets held for sale		-	-	6,395
Total current assets		23,492	24,902	35,454
Non-current assets				
Property, plant and equipment		26,891	26,435	27,185
Intangible assets		875	1,011	1,139
Investment	9	-	5,844	-
Investment in associate	9	7,580	-	-
Deferred income tax asset		3,048	2,837	972
Total non-current assets		38,394	36,127	29,296
Total assets		61,886	61,029	64,750
Liabilities				
Current liabilities				
Trade and other payables		7,879	7,079	6,824
Borrowings		2,000	2,852	-
Provision for employee entitlements		4,859	5,381	6,086
Current income tax liability		1,306	350	-
Deferred income		4,526	3,668	4,538
Liabilities held for sale		-	-	757
Total current liabilities		20,569	19,330	18,205
Non-current liabilities				
Borrowings		5,430	7,100	14,836
Provision for employee entitlements		4,200	4,034	4,079
Total non-current liabilities		9,630	11,134	18,915
Equity				
Share capital		22,100	22,100	22,100
Revaluation reserves		6,128	6,128	7,123
Foreign currency translation reserve		698	581	(288)
Retained earnings		2,760	1,756	(1,305)
Total equity		31,686	30,565	27,630
Total liabilities and equity		61,886	61,029	64,750

The accompanying notes form part of these condensed consolidated interim financial statements
The Board of Directors of AsureQuality Limited authorised these financial statements for issue on 18 May 2009.


John Spencer
Chair


Joanna Perry
Chair Audit, Risk and Compliance Committee

CONSOLIDATED INTERIM CASH FLOW STATEMENTS FOR THE SIX MONTHS ENDED 31 MARCH 2009

	Note	6 months Mar 2009 \$000	6 months Mar 2008 \$000
Cash flows from operating activities			
Receipts from customers		69,350	67,486
Rent received		66	69
Interest received		4	295
Payments to suppliers and employees		(63,226)	(62,228)
Interest paid		(332)	(831)
Tax paid		(877)	(1,500)
Net cash flows from operating activities		4,985	3,291
Cash flows from (used in) investing activities			
Purchase of property plant and equipment		(2,468)	(1,715)
Software development		-	(30)
Investments		(1,550)	-
Net cash flows (used in) investing activities		(4,018)	(1,745)
Cash flows from (used in) financing activities			
Payments to borrowings		(2,533)	(5,072)
Dividend paid		(3,000)	-
Net cash flows (used in) financing activities		(5,533)	(5,072)
Net increase (decrease in cash)		(4,566)	(3,526)
Opening cash		6,009	12,152
Effect of foreign exchange rates		(19)	10
Closing cash		1,424	8,636

The accompanying notes form part of these condensed consolidated interim financial statements

CONSOLIDATED NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 MARCH 2009

1. Reporting entity

AsureQuality Limited (AsureQuality) is a company registered under the Companies Act 1993. The Company is a company incorporated and domiciled in New Zealand. The Company provides food quality assurance and biosecurity services and manufactures and sells animal diagnostic products.

Condensed consolidated interim financial statements are presented, comprising AsureQuality Limited and its subsidiaries (the "Group").

2. Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with NZ IAS 34 Interim Financial Reporting.

The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. Accordingly, these financial statements should be read in conjunction with the annual report for the year ended 30 September 2008. The accounting policies used in the preparation of these financial statements are consistent with those used in the annual report for the year ended 30 September 2008.

The financial information contained in this report has not been audited by AsureQuality's auditors.

3. Seasonality of operations

AsureQuality's operations are seasonal and largely follow the primary production industry spring to winter season.

4. Dividends

During the interim period, a dividend of 12.61 cents (2008: NIL) per share was paid to the shareholder, relating to the 12 months ended 30 September 2008.

	Note	6 months Mar 2009 \$000	6 months Mar 2008 \$000
5. Revenue			
Revenue from continuing and discontinued operations consisted of the following items:			
Revenue from the rendering of services		69,115	67,878
Revenue from the sale of goods		1,565	2,295
		70,681	70,173
Rental revenue		66	69
Other income		14	8
		70,760	70,251
Attributable to:			
Continuing operations		70,760	66,823
Discontinued operations		-	3,427
		70,760	70,251
6. Cost of sales			
Labour		37,610	35,814
Consumables		4,615	4,576
Other expenses		4,934	4,872
		47,159	45,262

CONSOLIDATED NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 MARCH 2009

	Note	6 months Mar 2009 \$000	6 months Mar 2008 \$000
7. Discontinuing operation			
<i>Sale of Melbourne Food Laboratory to Dairy Technical Services Limited</i>			
In May 2008 the Group sold its Melbourne Food Laboratory; this was classified as held for sale as at 31 March 2008 and the comparative income statement includes the discontinued operation separately from continuing operations.			
The results of the discontinued operations which have been included in the comparative income statement and cash flows are as follows:			
Revenue		-	3,427
Cost of goods sold		-	(2,842)
Operating expenses		-	(1,589)
Results from operating activities		-	(1,004)
Income tax expense			
Income tax expense		-	301
Results from operating activities, net of tax		-	(703)
Cash flows from discontinued operations			
Net cash from operating activities		-	(709)
Net cash from investing activities		-	(14)
Net cash from financing activities		-	-
Net cash from (used in) discontinued operations		-	(722)

CONSOLIDATED NOTES TO AND FORMING PART OF THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 MARCH 2009

8. Contingent liabilities

There are no contingent liabilities as at 31 March 2009 (March 2008 nil).

9. Investment in associate

At 30 September 2008 AsureQuality's investment in Dairy Technical Services was not classified as an investment in an associate as the Directors did not believe that the Group was able to exert significant influence over Dairy Technical Services as a minority shareholder, and as the voting rights held by the Company were less than 20%.

On 1 October 2008 AsureQuality increased its investment in Dairy Technical Services to 25% after purchasing the shares of three minority shareholders. From this date the investment has been reclassified as an investment in associate and accounted for under the equity method, and the carrying amount has been increased to recognise AsureQuality's share of the profit of Dairy Technical Services after the date of acquisition.

	6 months Mar 2009 \$000	6 months Mar 2008 \$000
10. Reconciliation of profit for the period with cash flows from operating activities		
Profit for the period	4,003	2,165
Items not involving cash flows		
Amortisation - software	194	250
Depreciation - property, plant and equipment	1,945	2,298
Property plant and equipment written off	94	-
Gain on sales of property plant and equipment	(12)	(4)
Movement in deferred taxation	(176)	-
Movement in non-current provisions	166	65
Foreign currency exchange	46	194
Share of (profit) from associate	(194)	-
Impact of changes in working capital		
Trade and other receivables	(3,769)	(3,967)
Inventories	595	(931)
Current employee entitlements	(522)	501
Income tax	956	25
Accounts payable and accruals	800	1,142
Deferred income	858	1,554
Net cash flows from operating activities	4,985	3,291
11. Commitments		
CAPITAL COMMITMENTS		
Capital expenditure contracted for at balance date but not provided for	811	-

COMPARISON WITH PERFORMANCE TARGETS INCLUDING THE STATEMENT OF CORPORATE INTENT FOR THE SIX MONTHS ENDED 31 MARCH 2009

	6 months Mar 2009 Target	6 months Mar 2009 Actual	12 months Sept 2009 Target
Financial performance targets			
Revenue	\$69.9m	\$70.8m	\$134.9m
Gross profit margin	32.5%	33.4%	32.9%
Earnings before interest and tax	\$4.6m	\$5.8m	\$8.2m
EBIT margin	6.6%	8.2%	6.1%
Profit after tax	\$2.6m	\$4.0m	\$4.6m
Return on equity (profit after tax/shareholders' funds)	8.7%	12.6%	14.2%
Shareholders' funds	\$30.5m	\$31.7m	\$32.5m
EBIT/total assets	9.4%	9.3%	12.8%
Dividend	-	-	\$2.3m

Non-financial performance targets			
Supply of meat inspection labour	100.0%	100.0%	100.0%
Meat inspection accuracy			
Faecal contamination	>98.0%	99.3%	>98.0%
Other contamination	>94.0%	99.3%	>94.0%
Pathology	>94.0%	99.1%	>94.0%
Procedural accuracy	>95.0%	99.8%	>95.0%
Operational excellence - major critical audit failures	Nil	2	Nil
Staff turnover rate	<15.0%	11.7%	<15.0%
Medically treated injury frequency rate (MTIFR)	<10.0	12.0	<10.0

Major critical audit failures related to:

- › failure to apply correct procedures for pre-export isolation of live animals
- › failure to comply with procedures for handling chemicals

Both these issues have been addressed by changes to training systems.

The higher than expected medically treated injury frequency rate reflects a number of minor injuries within meat industry services at the end of the processing season.

The current MTIFR is below that of last year and the importance of safety in the workplace has been re-emphasised with appropriate staff and management.

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